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GBC

GBC

CAPITAL LTD.

ANNUAL REPORT

30TH SEPTEMBER, 1978



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CAPITAL LTD.

DIRECTORS

Douglas T. Bourke
*President and Chief Executive Officer,
Drummond, McCall & Co., Limited
Lachine, Quebec*

George A. Fierheller
*Vice-Chairman,
SDL/Datacrown Limited
Ottawa, Ontario*

James G. S. Gammell, M.B.E., C.A.
*Chairman,
Ivory & Sime Limited
Edinburgh, Scotland*

R. Alexander Hammond-Chambers
*Director,
Ivory & Sime Limited
Edinburgh, Scotland*

Neil B. Ivory
*President,
Pembroke Management Ltd.
Montreal, Quebec*

John S. Lane, C.F.A.
*Vice-President, Securities Investments,
Sun Life Assurance
Company of Canada
Toronto, Ontario*

Clifford L. Larock, F.C.I.S.
*Chairman and Chief Executive Officer,
Pembroke Management Ltd.
Montreal, Quebec*

Douglas W. Parkin, M.A., F.I.A.
*Senior Vice-President for
Canada, Finance
The Prudential Assurance
Company Limited
Montreal, Quebec*

OFFICERS

Clifford L. Larock, F.C.I.S.
President and Chief Executive Officer

Neil B. Ivory
Vice-President

A. Scott Taylor, C.F.A.
Vice-President

Richard Haller
Secretary-Treasurer

Cyril F. Reid
Assistant Secretary-Treasurer

MANAGERS AND LOCATION OF EXECUTIVE OFFICES

Pembroke Management Ltd.
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec
H3B 2W8

LISTED

Montreal Stock Exchange

AUDITORS

Touche Ross & Co.,
Chartered Accountants,
1 Place Ville Marie,
Montreal, Quebec
H3B 2A2

TRANSFER AGENT AND REGISTRAR

Montreal Trust Company,
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver for
Preferred Shares)

REGISTERED OFFICE

First Canadian Place,
Toronto, Ontario
M5X 1B3

823 000
207

TO THE SHAREHOLDERS:

REVIEW OF THE 1978 FISCAL YEAR

The fiscal year ended 30th September, 1978, was one of dramatic growth for GBC Capital Ltd. The Corporation benefited from strong price appreciation in the shares of the small growth companies held and a steadily rising U.S. dollar measured in Canadian funds. Shareholders' Equity rose 50.8% to \$64.1 million while net asset value per common share increased 59.9% to \$21.38. Taking Associated Company investments at market prices the net asset value per common share rose 68.9% to \$21.58. All of these figures were record highs for GBC. Since North American stock markets reached their low points approximately four years ago, GBC's net assets have risen 168% and the net asset value per share, reflecting the leverage of the GBC and Dominion-Scottish preferred share issues, has increased 392%.

While the U.S. economy was very buoyant during the period under review, and Canada experienced some growth, the financial environment, dominated by accelerating inflation and sharply rising short term interest rates, was not one normally associated with strong stock markets. The principal appeal of equities was probably their excellent value in relation to earnings and book value and the growing recognition by investors that in an inflationary environment the shares of sound companies showing real progress provide some shelter from depreciating currencies.

Consolidated net income rose to a record \$2,582,969 for the fiscal year ended 30th September, 1978, compared with \$1,644,953 for the previous twelve month period. After preferred dividends, net income per common share equalled \$0.84 compared with \$0.50 last year.

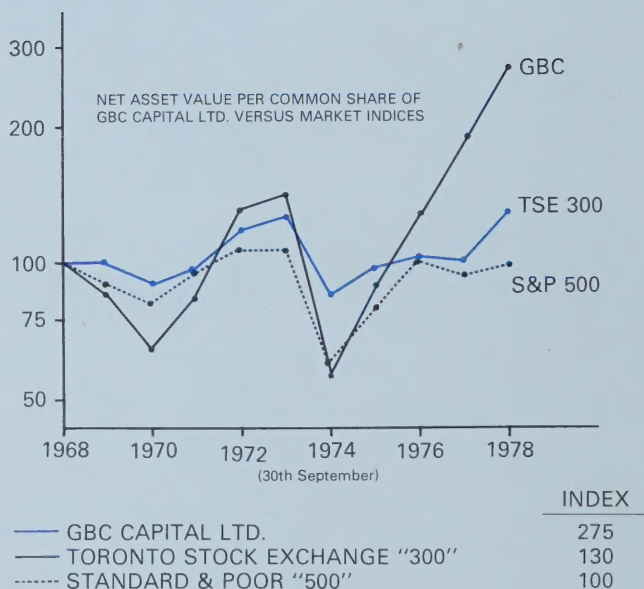
A dividend of \$0.30 per common share has been declared payable on 15th November, 1978 to shareholders of record at the close of business on 1st November, 1978.

TEN YEAR INVESTMENT RESULTS

Ten years ago Pembroke Management Ltd. assumed responsibility for the management of GBC with a mandate to invest in the equities of attractive smaller growth companies in the U.S. and Canada. Results during the erratic stock markets that followed have been volatile but, on the whole, most satisfactory, especially during the past four years when the environment for small growth stocks has become more favourable.

The following graph compares the net asset value per share of GBC, valuing Associated Companies at market, with the Toronto Stock Exchange 300 Composite Stock Index and the Standard and Poor 500 Composite Stock Index between 30th September, 1968 and 30th September, 1978.

TEN YEAR RELATIVE PERFORMANCE



SUBSIDIARIES

DOMINION-SCOTTISH INVESTMENTS LIMITED

For the year ended 30th September, 1978, Shareholders' Equity of Dominion-Scottish rose 48.6% to \$36.2 million. This compares with a rise of 24.9% and 6.2% in the Toronto Stock Exchange 300 Composite and Standard and Poor 500 Composite stock indices respectively during the same interval.

SUTTON VENTURES LTD.

Once again the strong price appreciation in the shares of Shared Medical Systems, the dominant holding in Sutton Ventures, helped this company to record a 77.3% rise in net asset value per share to \$33.24.

ASSOCIATED COMPANIES

HEADWAY CORPORATION LIMITED

For the nine months ended 31st August, 1978, the company reported net income of \$1.53 million or \$0.51 per share compared with \$1.71 million or \$0.57 per share for the same period last year. Cash flow for the latest period was \$3.45 million or \$1.16 per share versus \$3.65 million or \$1.23 per share in 1977.

For the final quarter of the 1978 fiscal year management expects significant growth in cash flow and net income. Activity in the principal housing markets served by the company is at

a low level and sales margins reflect keen competition from other builders. Results of the company's retail lumber chain are also below expectation.

The major emphasis during the past year has been the development of income properties in the southern area of the U.S., with particular emphasis on Florida. Most properties are being organized on a joint venture basis with local partners. Prospects for growth in fiscal 1979 are still promising despite rising interest rates.

REVELSTOKE COMPANIES LTD.

For the twelve months ended 30th June, 1978, Revelstoke reported net earnings of \$5.26 million or \$1.30 per share which represents a 36% increase over net earnings of \$3.86 million or \$0.97 per share for the previous twelve month period.

Both the retail and concrete divisions are continuing to benefit from the strong economy in Alberta and the improved outlook for agriculture in the prairie provinces. In British Columbia, where Revelstoke's stores are concentrated in the Okanagan Valley and on Vancouver Island, the situation is much less satisfactory on account of the depressed levels of the house building industry. Fortunately some signs of a recovery in these market areas are beginning to appear.

The lumber division is experiencing major increases in sales because of substantially higher lumber prices. These are attributable to the strength of the housing market in the U.S. which has continued longer than anticipated.

The outlook for the remainder of 1978 continues positive for all three divisions and results for 1978 should show a satisfactory increase over the prior year.

TOROMONT INDUSTRIES LTD.

For the first six months of 1978 net earnings from continuing operations were \$700,000 or \$0.23 per share versus \$497,000 or \$0.16 per share last year. In the 1978 period there were also extraordinary items which increased net earnings by \$291,000 or \$0.09 per share. The strong recovery in Toromont's U.S. industrial refrigeration operations was an important contributor to this increase in earnings. Manufacturing operations in the U.S. are now being concentrated in a new plant in Salt Lake City, Utah, which replaces facilities in three different locations. This should improve operating efficiency and bring about further increases in earnings from the operations in the U.S.

Growth is also anticipated in the Canadian operations particularly from the Canada Forgings division where a substantial investment in new equipment has been made.

OUTLOOK FOR 1979

Inflation in the U.S. continues to accelerate, credit demands remain at record levels and short term interest rates are still rising rapidly. There are also strong indications that the

economy is close to peak levels of activity and that real growth in 1979 will be marginal at best.

In Canada the economy continues in the doldrums with little prospect of significant improvement through 1979. The prime lending rate has reached 11% and corporate earnings have already experienced much of the benefit to be derived from the weakness of the Canadian dollar.

It is thus evident that the economic environment in both countries is not conducive to strong equity markets over the short term and market weakness in share prices has already appeared. Despite these negative short term factors the long term case for the shares of strongly financed and rapidly growing companies still remains persuasive. These shares still appear to be very attractively priced in terms of earnings, yields and the value of the assets they represent. Selectivity will continue to be the key to investment performance as has been the case in the past several years.

THE LATE MR. A. DEANE NESBITT, O.B.E., D.F.C.

It was with great sadness that the Directors of this Corporation recorded the tragic death on 22nd February, 1978, of Mr. A. Deane Nesbitt. A member of this Board since 5th October, 1954, Mr. Nesbitt brought to its deliberations a wealth of experience, good judgment and wise counsel. An outstanding Canadian, Deane Nesbitt gave generously of his time and abilities to many worthy causes and contributed in numerous ways to the benefit of his fellow Canadians. He will be greatly missed by his colleagues and friends.

DIRECTORATE

On 19th July, 1978, Mr. Douglas T. Bourke, President and Chief Executive Officer of Drummond, McCall & Co., Limited, was appointed a member of the board of directors of this Corporation and of its subsidiary Dominion-Scottish Investments Limited to fill the vacancies created by the death of Mr. Nesbitt.

Mr. James G. S. Gammell, Chairman of Ivory & Sime Limited, Edinburgh, Scotland, has decided not to stand for re-election at the forthcoming Annual Meetings of the Corporation and Dominion-Scottish. Mr. Gammell has been a director of the Corporation since 22nd May, 1970, and of Dominion-Scottish Investments Limited since 8th April, 1968, and has contributed significantly over the years to their achievements. His colleagues will miss his acumen and foresight and friendly presence at board meetings.

Mr. Ian E. Ivory, a director, and Mr. John Clark, both investment managers of Ivory & Sime, have been nominated for election as directors of the Corporation and of Dominion-Scottish at the forthcoming Annual Meetings of Shareholders.

On behalf of the Board,
Clifford L. Larock,
President.

Montreal, Quebec,
23rd October, 1978.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF INCOME AND
RETAINED EARNINGS**
for the Year Ended
30th September, 1978

	1978	1977
INCOME FROM INVESTMENTS		
Securities in investment portfolios	\$1,004,497	\$ 739,476
Associated companies (share of earnings — Note 3) ...	2,139,615	1,357,245
Interest	253,597	172,169
	<u>3,397,709</u>	<u>2,268,890</u>
Management expenses	321,057	237,218
Other expenses	65,741	81,601
	<u>386,798</u>	<u>318,819</u>
	3,010,911	1,950,071
Income and withholding taxes	277,342	155,363
	2,733,569	1,794,708
Minority interest	150,600	149,745
NET INCOME	<u>2,582,969</u>	<u>1,644,963</u>
Retained earnings at 1st October	4,794,250	3,637,280
	<u>7,377,219</u>	<u>5,282,243</u>
Dividends:		
5 1/4% preferred shares	315,000	315,000
Common shares	183,221	172,993
	<u>498,221</u>	<u>487,993</u>
RETAINED EARNINGS AT 30TH SEPTEMBER	<u>\$6,878,998</u>	<u>\$4,794,250</u>
Net income per common share	<u>\$0.842</u>	<u>\$0.499</u>

AUDITORS' REPORT

To the Shareholders,
GBC Capital Ltd.

We have examined the consolidated statement of financial position of GBC Capital Ltd. as at 30th September, 1978 and the consolidated statement of income and retained earnings for the year then ended. Our examination was made in accordance with generally accepted auditing standards, and accordingly included such tests and other procedures as we considered necessary in the circumstances.

In our opinion, these consolidated financial statements present fairly the financial position of the corporation as at 30th September, 1978 and the results of its operations for the year then ended in accordance with generally accepted accounting principles applied on a basis consistent with that of the preceding year.

Montreal, Quebec
23rd October, 1978.

Touche Ross & Co.
Chartered Accountants.

GBC CAPITAL LTD.
and subsidiary companies

**CONSOLIDATED
STATEMENT OF
FINANCIAL POSITION**
as at 30th September, 1978

	<u>1978</u>	<u>1977</u>
INVESTMENTS		
Securities in investment portfolios at market value (Note 2)	\$53,729,830	\$29,784,982
Associated companies (Note 3)	13,084,000	11,383,000
	<u>66,813,830</u>	<u>41,167,982</u>
 CURRENT ASSETS		
Cash and short term deposits	1,996,847	4,283,667
Accounts receivable	—	55,446
Accrued income on investments	232,431	178,844
Income taxes recoverable	61,076	129,400
	<u>2,290,354</u>	<u>4,647,357</u>
 CURRENT LIABILITIES		
Preferred dividend payable	78,750	78,750
Accounts payable and accrued expenses	257,924	70,726
Income taxes payable	1,429,700	28,000
	<u>1,766,374</u>	<u>177,476</u>
 NET CURRENT ASSETS	<u>523,980</u>	<u>4,469,881</u>
	67,337,810	45,637,863
 MINORITY INTEREST	<u>3,273,700</u>	<u>3,151,313</u>
NET ASSETS (Note 6)	<u>\$64,064,110</u>	<u>\$42,486,550</u>
 REPRESENTED BY		
Capital stock (Note 4)	\$22,166,574	\$22,166,574
Contributed surplus	1,325,310	1,325,310
Retained earnings	6,878,998	4,794,250
Surplus from changes in investments (Note 5)	10,506,190	5,995,087
Unrealized appreciation of investments (Note 2)	23,187,038	8,205,329
	<u>\$64,064,110</u>	<u>\$42,486,550</u>

Approved by the Board on 23rd October, 1978:

C. L. LAROCK, Director
NEIL B. IVORY, Director

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1978

Note 1. Accounting Policies and Presentation

(a) General

The corporation follows generally accepted accounting principles in the preparation of its financial statements and their application is consistent with that of the previous year.

The 1977 fiscal period was for nine months, but for purposes of comparison with 1978 the figures have been restated to reflect twelve months.

(b) Principles of consolidation

The consolidated financial statements include the accounts of Dominion-Scottish Investments Limited (98.95% of the common shares owned) and Sutton Ventures Ltd. (100% owned) and, by using the equity method, give effect to the share of earnings attributable to investments in associated companies. (See Note 3).

(c) Foreign currencies

Transactions in foreign currencies during the year were recorded at the relative rates of exchange applicable on the dates of such transactions. Amounts in foreign currencies included in assets and liabilities have been shown in Canadian funds, converted at rates of exchange applicable at the end of the year, any adjustment thereon being credited or charged, as the case may be, to "Surplus from changes in investments."

(d) Statement of changes in financial position

A statement of changes in financial position has been omitted since it is deemed inappropriate for an investment corporation. A statement of changes in net assets (Note 6) has been substituted therefor.

Note 2. Securities in Investment Portfolios at Market Value

	1978	1977
GBC Capital Ltd.	\$ 7,986,000	\$ 3,816,000
Dominion-Scottish Investments Limited	36,816,706	22,377,912
Sutton Ventures Ltd.	8,927,124	3,591,070
	<u>53,729,830</u>	<u>29,784,982</u>
Securities at average cost	29,649,401	20,627,540
	<u>24,080,429</u>	<u>9,157,442</u>
Amount required to adjust average cost from a corporate basis to a consolidated basis	(893,391)	(952,113)
Balance included in shareholders' equity as unrealized appreciation of investments	<u>\$23,187,038</u>	<u>\$ 8,205,329</u>

Note 3. Associated Companies

The corporation's share of equity values, on a fully diluted basis, at 30th September, 1978 is as follows:

	Share of Equity	Share of Earnings for the Year
Revelstoke Companies Ltd.	\$ 6,306,000	\$ 1,121,400
Headway Corporation Limited (share of earnings includes interest on debentures)	3,625,000	575,290
Toromont Industries Ltd.	2,401,000	442,925
	<u>\$12,332,000</u>	<u>\$ 2,139,615</u>

The share of equity as at 30th September, 1977 amounted to \$10,609,000 and the share of earnings for the year then ended was \$1,357,245.

The investment in associated companies of \$13,084,000 includes an amount of \$752,000 representing the excess cost of the investments over the equity value less amortization. The amortization is over 40 years and the current charge for the year, netted against equity earnings, is \$22,000 (1977 — \$22,243).

The market value of these investments as at 30th September, 1978 is \$13,612,500 (1977 — \$9,791,625).

Note 4. Capital Stock

	1978	1977
5 $\frac{1}{4}$ % cumulative redeemable preferred shares without nominal or par value		
Authorized and issued — 120,000 shares	\$ 6,000,000	\$ 6,000,000
Common shares without nominal or par value		
Authorized — not limited		
Issued — 2,694,429	16,166,574	16,166,574
	<u>\$22,166,574</u>	<u>\$22,166,574</u>

The preferred shares are redeemable at the option of the corporation at any time in whole or from time to time in part, on not less than 30 days' notice, at \$52.50 per share (in one restricted event at \$50 per share) plus accrued and unpaid dividends, if any, to the date of redemption. The corporation may, at any time and from time to time, also purchase the whole or any part of such preferred shares in the open market at a price not exceeding the redemption price thereof plus costs of purchase.

GBC CAPITAL LTD.
and subsidiary companies

**NOTES TO CONSOLIDATED
FINANCIAL STATEMENTS**
30th September, 1978
(Continued)

Note 5. Surplus from Changes in Investments

	1978	1977
Balance at 1st October	<u>\$ 5,995,087</u>	<u>\$ 4,989,302</u>
Gain on changes in investments (including gain on exchange \$277,468; 1977 — \$318,488)	<u>6,071,223</u>	<u>1,279,277</u>
Income taxes on changes in investments	<u>1,560,120</u>	<u>273,492</u>
	<u>4,511,103</u>	<u>1,005,785</u>
Balance at 30th September	<u>\$10,506,190</u>	<u>\$ 5,995,087</u>

Note 6. Changes in Net Assets

	1978	1977
Net assets at 1st October	<u>\$42,486,550</u>	<u>\$34,936,173</u>
Add:		
Net income for the year	<u>2,582,969</u>	<u>1,644,963</u>
Gain on changes in investments		
Portfolio securities at average cost at beginning of year	<u>20,627,540</u>	<u>21,823,692</u>
Purchases	<u>16,008,986</u>	<u>7,202,313</u>
Portfolio securities at average cost at end of year	<u>36,636,526</u>	<u>29,026,005</u>
Cost of securities sold	<u>29,649,401</u>	<u>20,627,540</u>
Proceeds from securities sold	<u>6,987,125</u>	<u>8,398,465</u>
	<u>12,780,880</u>	<u>9,359,254</u>
	<u>5,793,755</u>	<u>960,789</u>
Gain on exchange	<u>277,468</u>	<u>318,488</u>
Stated value of common shares held by a subsidiary and disposed of during year	<u>—</u>	<u>198,000</u>
Increase in unrealized appreciation of investments	<u>14,981,709</u>	<u>5,189,622</u>
	<u>23,635,901</u>	<u>8,311,862</u>
Deduct:		
Income taxes on changes in investments	<u>1,560,120</u>	<u>273,492</u>
Dividends		
5 ¹ / ₄ % preferred shares	<u>315,000</u>	<u>315,000</u>
Common shares	<u>183,221</u>	<u>172,993</u>
	<u>2,058,341</u>	<u>761,485</u>
Increase for the year	<u>21,577,560</u>	<u>7,550,377</u>
Net assets at 30th September	<u>\$64,064,110</u>	<u>\$42,486,550</u>

Note 7. Directors and Officers

Aggregate remuneration paid during the year to the corporation’s eight (1977 — nine) directors was as follows:

Paying corporation	<u>1978</u>	<u>1977</u>
GBC Capital Ltd.	\$17,554	\$16,136
Dominion-Scottish Investments Limited	17,554	16,136
Sutton Ventures Ltd.	<u>1,000</u>	<u>1,000</u>
	<u>\$36,108</u>	<u>\$33,272</u>

No remuneration was paid to the corporation’s five officers, two of whom are directors.

Note 8. Net Asset Value

The net asset value per common share of the corporation is as follows:

	<u>1978</u>	<u>1977</u>
Equity accounting basis	\$21.38	\$13.37
Market value basis	\$21.58	\$12.78

GBC CAPITAL LTD.
and subsidiary companies

INVESTMENT PORTFOLIOS
as at 30th September, 1978

	Number of Shares	Market Value
CONSUMER PRODUCTS		
Dominion Dairies Limited	64,000	\$ 1,280,000
* Gillette Co., The	20,000	748,429
Scott's Restaurants Co. Limited	100,000	900,000
		<u>\$ 2,928,429</u>
DATA PROCESSING		
*Computer Automation, Inc.	5,000	\$ 201,896
*Cullinane Corporation	10,000	301,691
*National Data Corporation	75,000	965,410
*National Micronetics, Inc.	17,200	216,313
†*Shared Medical Systems Corporation	460,000	12,245,160
		<u>\$13,930,470</u>
DISTRIBUTION		
Emco Limited	75,000	\$ 609,750
*Lanier Business Products, Inc.	20,000	733,522
Wajax Limited	80,000	890,400
		<u>\$ 2,233,672</u>
ELECTRONICS		
*Dynatech Corporation	7,500	\$ 275,071
*Evans & Sutherland Computer Corporation	10,000	328,310
*Finnigan Corporation	10,000	218,874
*Microdata Corporation	10,000	226,327
*Modular Computer Systems, Inc.	10,000	164,214
*Molex Incorporated	15,000	448,099
*MTS Systems Corporation	15,000	312,871
*Spectra-Physics, Inc.	10,000	238,158
		<u>\$ 2,211,924</u>
ENERGY		
*American Quasar Petroleum	30,000	\$ 771,973
*McMoRan Exploration Co.	40,000	633,195
*Murphy Oil Corporation	15,000	945,001
*Noble Affiliates, Inc.	30,000	1,096,024
Numac Oil & Gas Ltd.	70,000	2,074,100
Siebens Oil & Gas Ltd.	20,000	735,000
*Standard Oil Company, The, Ohio	30,000	1,366,480
*Transco Companies, Inc.	15,000	385,986
Voyager Petroleum Ltd.	100,000	1,588,000
*Welltech, Inc.	15,000	561,322
*Williams Companies	30,000	692,114
		<u>\$10,849,195</u>
FINANCE		
*H & R Block, Inc.	50,000	\$ 1,345,776
*Old Republic International Corporation	20,000	624,204
*Peterson, Howell & Heather, Incorporated	15,000	317,307
		<u>\$ 2,287,287</u>

	Number of Shares	Market Value
HEALTH CARE		
*National Medical Care, Inc.	45,000	\$ 1,258,049
*ServiceMaster Industries Inc.	10,000	319,437
		<u>\$ 1,577,486</u>
MANUFACTURING		
*Dataproducts Corporation	40,000	\$ 899,156
J. Harris & Sons, Limited	310,000	1,937,500
Ivaco Industries Limited	60,000	690,000
*Marley Company, The	20,000	721,691
*Northwestern Steel & Wire Company	10,000	378,592
*Pacesetter Corp.	15,000	257,324
*Standard Motor Products, Inc.	30,000	665,494
*Storage Technology Corporation	20,000	718,852
*Teledyne Inc.	17,000	2,001,214
*Thetford Corporation	14,000	136,648
		<u>\$ 8,406,471</u>
METALS AND MINING		
Lornex Mining Corporation Ltd.	50,000	\$ 712,500
Yukon Consolidated Gold Corporation Limited, The	500,000	1,300,000
*Phelps Dodge Corporation	25,000	709,860
		<u>\$ 2,722,360</u>
REAL ESTATE		
Carma Developers Ltd.	35,000	\$ 498,750
*Cousins Properties Incorporated	100,000	547,775
*General Growth Properties, S.B.I.	50,000	1,552,819
*Rouse Company, The	100,000	1,080,170
		<u>\$ 3,679,514</u>
RETAILING		
Grafton Group Limited	30,000	\$ 986,400
*Volume Shoe Corporation	40,000	1,135,776
		<u>\$ 2,122,176</u>
TRANSPORTATION		
*Midwestern Distribution, Inc., Class "A"	60,000	<u>\$ 780,846</u>
TOTAL VALUE OF INVESTMENT PORTFOLIOS		<u>\$53,729,830</u>

*U.S. Securities.

†Restricted shares, at Directors' valuation.

GBC CAPITAL LTD.
and subsidiary companies

FIVE-YEAR FINANCIAL SUMMARY

	<u>1978</u>	<u>1977(1)</u>	<u>1976</u>	<u>1975</u>	<u>1974</u>
Gross income (thousands)	\$ 3,398	\$ 1,453	\$ 2,521	\$ 1,890	\$ 1,639
Net income (thousands)	2,583	976	1,926	1,373	1,213
Per common share—					
Net income	0.84	0.27	0.61	0.40	0.34
Dividend paid	0.068	—	0.065	0.06	0.06
Total funds available (thousands)	67,338	45,638	39,356	32,870	26,138
Net assets (thousands)	64,064	42,487	36,237	29,650	22,913
Available for common shares (thousands)	57,606	36,028	29,779	23,192	16,455
Net asset value per common share:					
Equity accounting basis	21.38	13.37	11.19	8.71	6.18
Market value basis	21.58	12.78	10.89	7.42	5.08

(1) Nine month period ended 30th September, 1977.

TO THE SHAREHOLDERS

Financial

GBC's net asset value rose modestly to a record level during the second quarter ended 31st March, 1978. These results were achieved, despite continuing weakness in the broad based U.S. stock market averages, because of the firm Canadian stock market, the growing premium of the U.S. dollar relative to Canadian currency and general strength in the share prices of smaller U.S. growth companies. During the period, the net asset value per common share, valuing Associated Companies at equity, rose 6.0% to \$16.12 and at market 2.8% to \$15.18.

For the first half of fiscal 1978, GBC's net asset value per share at equity increased 20.6% and at market 18.8%. In the same interval the Dow Jones Industrial Average declined 10.6% and the Toronto Stock Exchange Composite Index rose 6.3%.

Net income for the first six months of fiscal 1978 totalled \$1,060,000 equivalent to \$0.34 per common share after preferred dividend payments. This compares with net income of \$1,109,000 and earnings per share of \$0.36 in the same period last year.

Associated Companies

Headway Corporation Limited

The 15-month fiscal period ended 30th November, 1977 was one of record achievement for the company. Cash flow during that period was \$5,714,000 or \$1.92 per share while net income was \$2,712,000 or \$0.91 per share, prior to an extraordinary item resulting from the sale of the Suny's division.

At the end of the fiscal period Headway had a working capital position in excess of \$12,000,000 and operating bank borrowings had been substantially reduced. The dividend of \$0.14 per Class A share, recently declared, was the maximum permitted by the Anti-Inflation Board.

While expansion in Canada will continue on a selective basis management plans to expand its search for attractive investments in the U.S. Notwithstanding the many uncertainties in the economy the company anticipates continued growth in the current year.

Revelstoke Companies Ltd.

Net income for the year ended 31st December, 1977 amounted to \$4,385,000 or \$1.09 per share which was virtually the same as the results for the previous year. For 1977 the lumber division generated a small profit which was a welcome improvement over the losses incurred in recent years, but the retail division suffered from very weak business conditions in British Columbia. At the concrete division there was a modest increase in costs relative to sales.

Earnings in 1977 benefitted from recent legislation permitting a reduction in taxable income of 3% of the opening value of inventories but this benefit was largely offset by the impact of the Anti-Inflation Controls.

Revelstoke will still be subject to the Anti-Inflation Controls throughout 1978 but, despite these restrictions, there should be some increase in earnings at all three divisions.

Toromont Industries Ltd.

For 1977 net earnings before special items were \$1,572,000 or \$0.51 per share. The comparative figures for 1976 were net earnings of \$1,175,000 and \$0.26 per share. Earnings per share were based on 3,061,000 and 4,572,000 shares outstanding in 1977 and 1976 respectively.

During 1977 Toromont sold a subsidiary, Viking Pump Company of Canada, Limited at a loss of \$205,000. After allowing for this loss and adjusting for profits on discontinued operations net earnings for 1977 were \$1,401,000 or \$0.46 per share.

The significant improvement achieved in 1977 was due largely to the satisfactory profit earned by the U.S. subsidiary, Lewis Refrigeration Co., which benefitted from increased spending in the food processing industry, its principal market. In 1976 Lewis incurred a substantial loss.

Outlook

While U.S. economic activity is presently recovering sharply from the weak first quarter, the prospects for the last half of 1978 are for gradually declining rates of economic growth. Higher interest rates and reduced inflows of savings into thrift institutions will likely cause a slowdown in housing activity while accelerating increases in food prices will adversely affect consumer spending. Unless a tax cut is legislated in the fall, economic growth in the first half of 1979 could become quite nominal.

Canada faces another year of sluggish economic growth and high inflation. The options available to the Government to stimulate economic growth and reduce unemployment are severely limited by enormous federal budget deficits and the very weak Canadian dollar. While Canada's exports may be stimulated in the short term by the weak dollar, the long run implications for inflation and economic growth are depressing. The consequences of excessive federal and provincial government spending over the past decade are becoming increasingly apparent.

The recent strength of the Canadian stock market, together with the continuing superior performance of

shares of smaller U.S. growth companies has been surprising. There appear to be enough economic and financial uncertainties ahead to call for an investment policy which incorporates some cash reserves and the selection of strongly financed companies not overly dependent upon buoyant economic activity for their continued growth.

The Late Mr. A. Deane Nesbitt, O.B.E., D.F.C.

It is with great sadness that the Directors of this Corporation record the tragic death on 22nd February, 1978, of Mr. A. Deane Nesbitt. A member of this Board since 5th October, 1954, Mr. Nesbitt brought to its deliberations a wealth of experience, good judgment and wise counsel. An outstanding Canadian, Deane Nesbitt gave generously of his time and abilities to many worthy causes and contributed in numerous ways to the benefit of his fellow Canadians. He will be greatly missed by his colleagues and friends.

Respectfully submitted,

Clifford L. Larock,
President

Montreal, Quebec,
21st April, 1978.

GBC CAPITAL LTD.Consolidated Statement of
Income (unaudited)

	Six months to 31st March 1978	1977
Income from Investments	\$ 523,199	\$ 401,331
Portfolio securities	806,720	931,107
Associated companies (share of earnings)	118,002	69,582
Interest	<u>1,447,921</u>	<u>1,402,020</u>
Management expenses	147,028	114,145
Other expenses	<u>37,887</u>	<u>37,991</u>
	184,915	152,136
	<u>1,263,006</u>	<u>1,249,884</u>
Income and withholding taxes	126,957	65,351
	<u>1,136,049</u>	<u>1,184,533</u>
Minority interest	<u>75,644</u>	<u>75,451</u>
Net Income for Period	\$1,060,405	\$1,109,082
Per common share	<u>\$0.34</u>	<u>\$0.36</u>

**Consolidated Statement of
Changes in Net Assets (unaudited)**

	Six months to 31st March 1978	1977
Net Assets at Beginning of Period	\$42,486,550	\$34,936,173
Net income for period	1,060,405	1,109,082
Gain on changes in investments — average cost at beginning of period	<u>20,627,540</u>	<u>20,948,537</u>
Purchases	<u>5,569,076</u>	<u>3,705,583</u>
	<u>26,196,616</u>	<u>24,654,120</u>
Portfolio securities at average cost at end of period	<u>22,307,964</u>	<u>21,684,156</u>
Cost of securities sold	<u>3,888,652</u>	<u>2,969,964</u>
Proceeds from securities sold	<u>7,584,992</u>	<u>3,185,150</u>
	<u>3,696,340</u>	<u>215,186</u>
	199,477	237,927
Gain on exchange	<u>3,775,325</u>	<u>1,424,009</u>
Increase in unrealized appreciation	(995,025)	(192,292)
Income taxes on changes in investments	(157,500)	(157,500)
Dividends — preferred shares	(183,221)	(172,993)
common shares	<u>7,395,801</u>	<u>2,463,419</u>
Increase for period	\$49,882,351	\$37,399,592
Net Assets at End of Period	\$16.12	\$11.63
Per common share		

OFFICERSClifford L. Larock, F.C.I.S.
*President and Chief Executive Officer*Neil B. Ivory
*Vice-President*A. Scott Taylor, C.F.A.
*Vice-President*Richard Haller
*Secretary-Treasurer*Cyril F. Reid
*Assistant Secretary-Treasurer***DIRECTORS**

George A. Fierheller

James G. S. Gammell, M.B.E., C.A.

R. Alexander Hammond-Chambers

Neil B. Ivory

John S. Lane, C.F.A.

Clifford L. Larock, F.C.I.S.

Douglas W. Parkin, M.A., F.I.A.

**MANAGERS AND LOCATION OF
EXECUTIVE OFFICES**Pembroke Management Ltd.,
1018 Sun Life Building,
Dominion Square,
Montreal, Quebec H3B 2W8**LISTED**

Montreal Stock Exchange

AUDITORSTouche Ross & Co.,
1 Place Ville Marie,
Montreal, Quebec H3B 2A2**TRANSFER AGENT AND REGISTRAR**Montreal Trust Company:
Montreal, Toronto and Calgary
(also Winnipeg and Vancouver
for preferred shares)**REGISTERED OFFICE**First Canadian Place,
Toronto, Ontario M5X 1B3

AR25

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SECOND QUARTER REPORT

31st March, 1978